Public budgeting and financial management in sub-Saharan Africa: A critical survey

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ABSTRACT. The survey of Sub-Saharan countries shows that after nearly two decades of stagnation, growth is reviving and is likely to receive additional momentum with the pursuit and judicious implementation of further fiscal adjustment efforts. The impact of economic stagnation on the financial management systems is evident in that they continue to be under severe strain despite a series of efforts aimed at their improvement. Lack of accountability and chronically ineffective control of expenditures are two of the major problem areas that need to be addressed. Among other areas that need to be addressed on a priority basis are the revamping of budgetary processes, including the development of a macroeconomic framework and forging more enduring links between planning and budgeting and improved management of foreign aid.

INTRODUCTION

Improvements in budgeting and financial management policies, practices and institutions have now become a critical area for reform in most countries in Sub-Saharan Africa. On the economic scene there are now signs that after more than two decades of stagnation and decline in living standards, growth processes are gaining momentum in a number of countries. There is also enough evidence of a transition to better macroeconomic policies in a number of countries, particularly in regard to trade and exchange regimes; countries that have implemented forwardlooking structural adjustment policies are also beginning to witness higher rates of economic growth.

However, the full potential of the outward-looking policies and the more stable macroeconomic environment is to yet to be realized, even in the reforming countries. Achieving more rapid economic growth and substantial improvements in the living standards of a majority of the population requires much greater attention by the governments in improving their overall fiscal performance and public sector financial management. Government financial management continues to be a major constraint in many countries due to years of neglect, lack of accountability and institutional capacity for planning and management of the national budgets. It is also becoming apparent that sustained improvements in budgeting and financial management and in the allocation of resources are more difficult to achieve compared to the policy reforms already implemented.

This article surveys some of the major problems in this regard and identifies a set of key issues, attention to which might assist a number of governments in improving financial management in the public sector. First, it reviews briefly the recent trends in the economic situation in Sub-Saharan Africa and highlights the importance of fiscal reforms for the success of other reform and liberalization measures that have been implemented in a number of countries. Second, some of the major features of the fiscal systems in Sub-Saharan Africa are discussed. Third, the article reviews some of the major constraints in achieving better fiscal performance and improvements in financial management. These include a general lack of accountability, a weak and unstable revenue base, lack of effective control of expenditures and the critical debt situation. Finally, policy issues that will require attention for improving fiscal management will be discussed and suggestions regarding some directions for change will be presented.

CHANGING ECONOMIC SITUATION

During 1970-80, the average annual rate of growth of the Gross Domestic Product (GDP) was 3.8 percent in Sub-Saharan Africa, compared to 6.9 percent for East Asia and Pacific and 3.5 percent for South Asia. However, during 1980-93, GDP grew by only 1.6 percent a year on an average in Sub-Saharan Africa, compared 7.8 percent in East Asia and Pacific and 5.2 percent for South Asia. Gross domestic savings declined from 18 percent of GDP in 1970 to 15 percent in 1993 in Sub-Saharan Africa, whereas in East Asia it increased from 28 percent to 35 percent and in South Asia from 15 percent to 21 percent during the same period (World Bank, 1995a). Per-capita incomes in Sub-Saharan Africa declined at an average annual rate of 0.8 percent during 1980-93 compared to a growth of 6.4 percent a year in East Asia and the Pacific and 3.0 percent in South Asia. The declining trend in per capita real incomes coincided with widening domestic and external imbalances in many countries, a mounting external debt burden and a worsening in the plight of economically and socially vulnerable groups.(l)

The external environment has generally been unfavorable, with sharp declines in world commodity prices and substantial losses in terms of trade. The deterioration in terms of trade has been particularly pronounced since 1985. The impact was more serious in Sub-Saharan Africa, as the structure of the economies made them vulnerable to terms of trade losses. The export earnings of virtually all countries are still heavily concentrated on one or two commodities while, for some countries, government revenues still rely heavily on export taxes (International Monetary Fund, 1995: 98-107).

Since 1994 there has been a gradual improvement in economic performance. An upturn in economic growth was apparent in 1994-95 and this broadened further in 1996 with the achievement of a 5 percent average rate of growth. Countries in the CFA franc zone also benefitted from the 1994 devaluation of the CFA franc and the implementation of structural adjustment programs, and economic growth registered a turnaround in 1995.

It is also noteworthy that the continuing wide variation in economic performance of individual countries or country groups during 1986-94 reflected mainly the differences in policy responses to the worsening external environment. Some 14 countries that are called the "strong adjusters" by the **IMF** and World Bank, effectively implemented appropriate policies under **IMF** supported programs for at least three years during 198S1993, achieving higher rates of savings and investment and lower inflation as well as a positive growth in per capita real GDP. (International Monetary Fund, 1997).(2) Thus it is becoming apparent that **Sub-Saharan Africa** can no longer be considered as an undifferentiated mass of poorly performing economies.

Despite these encouraging trends, fundamental constraints - rapid population growth, low human infrastructure development, inadequate economic and social infrastructure and other structural rigidities - remain in a number of countries. The removal of these constraints will require more effective implementation of reform policies - in particular strengthening of government financial management practices, resource mobilization, better allocation of resources, the reduction of dis-savings of the public sector, improved economic incentives and governance and the alleviation of other structural and institutional impediments to growth and human resource development.

Importance of Fiscal Reforms

Economic reforms implemented in a number of countries in Sub-Saharan Africa have concentrated on the external sector, justifiably so as a result of the severe and persistent external imbalances. Reforms in the public sector have so far emphasized some reduction in the number of employees in the public sector, the withdrawal of government financial support to public enterprises, divestiture, privatization and a reduction in public capital expenditures - all with a view to reduce the fiscal deficit.

Fiscal imbalances are still large in a number of countries, and the progress made so far in lowering or containing these imbalances is often fragile or precarious. Deficit reduction has relied on government expenditure restraint and postponement, as revenues have declined in relation to GDP in several countries. Intensified efforts are needed to strengthen government revenue mobilization and government savings, so as to finance the needed expansion in the needed economic and social infrastructure, while allowing a further reduction in fiscal imbalances (International Monetary Fund, 1995: 98-107).

Sustained efforts are required in improving the budget process and financial management practices, particularly with a view to achieve sustainable reallocations of public expenditures from wasteful consumption to productive human and physical infrastructure investments. All this requires an openness not often heard of in a number of budgetary systems in Sub-Saharan Africa. Experience with economic reform programs in many developing regions has demonstrated the importance of fiscal reform as precondition to the success of policy reform in other areas.

Exchange rate liberalization has increased the local currency value of revenues from import taxes as well as debt service payments in a number of countries. Although public expenditures including transfers are not indexed for inflation in Sub-Saharan Africa, there are strong tendencies in many governments to apply the incremental revenues for current and capital expenditures, particularly to offset the increase in interest payments. Such fiscal expansion, particularly in the context of stabilization and economic adjustment efforts and in countries where public expenditures already constitute a fairly large proportion of GDP, will be counter-productive to the goals of achieving rapid economic growth.

In a number of countries domestic interest rates have been liberalized, without corresponding fiscal reforms and reduction of fiscal deficits.(3) This has led to major structural problems in the budget with interest payments crowding out investments and expenditures on the social sectors. For example in Ghana, interest expenditures increased from 1.4 percent of the GDP in 1987 to 4.9 percent in 1995. Domestic interest as a percentage of total recurrent expenditure increased from 2.9 percent in 1990 to 22.1 percent in 1995 (Dordunoo, 1995: 1). Continued high levels of domestic borrowing by the governments has also led to a distortion of domestic interest rates, with the banks and financial institutions reshuffling their portfolios in favor of government securities and against commercial lending, leading to an artificial credit squeeze. Such a regime of higher interest rates also attracts short term capital flows from abroad, leading to a vicious cycle of more stabilization and more pressure on domestic interest rates. Thus, in the absence of effective fiscal reforms, productive private sector investment is affected and public investments squeezed; in the process there is a likely to be a redistribution of resources from the rich to the poor.

MAJOR FEATURES OF FISCAL PERFORMANCE

However, achieving reforms in public budgeting and financial management in many Sub-Saharan African (SSA) countries has been a difficult task not only due to inadequate institutional capacities in most governments but also due to the extremely fragile nature of public financial systems.(4) For the region as a whole, central government expenditures as a percentage of GDP were large, around 32 percent during 1980-86, although there were some reductions since the 1990s. Even with these reductions, government expenditures are still high in relation to per-capita income levels and the rate of growth of economies, at around 28-30 percent of the GDP. The composition of government expenditures is also weighted heavily towards payment of interest charges and salaries and over a period of time. There has been a substantial compression of real expenditures on public investments and the social sectors such as primary education and primary health care. Public enterprises engaged in commercial activities have continued to be a major drain on budgetary resources, accounting for 14 percent to 22 percent of budgeted expenditures (The World Bank,1995b).

Government revenues are about 18 percent of the GDP for the region as a whole, but there is wide variation across countries. A review of a sample of 30 countries revealed that one-third of the countries had a revenue to GDP ratio of 12 percent in 1988-93 which was barely enough to cover interest payments and salaries, while another one-third of the sample had a ratio of more than 22 percent (The World Bank, 1995b).

Budget deficits in the region remained high at around 8 - 9 percent of the GDP during 1980-1986. The stance of fiscal policy, as measured by changes in the primary government budget balance, excluding grants as a ratio to GDP, has fluctuated from year to year. With increasing interest payments on public debt, the overall budget deficit (excluding grants) widened markedly, to about 9 percent of the GDP by 1994, a level still significantly higher than that required to stabilize the ratio of debt to GDP. However, it is important to note that these indicators of fiscal performance indeed conceal wide variations in the fiscal policy stance adopted by individual countries and the important regional differences in the rates of growth of the GDP.

In the case of "strong adjusters", the broadening of the tax base and tax reforms facilitated a steep increase in Government revenue and expenditure and allowed for a narrowing of the fiscal imbalances, in sharp contrast to the experience of other Sub-Saharan African (SSA) countries.

However, budget deficits in the "slowly adjusting countries" more than doubled in relation to GDP between 1986 and 1993, because of declining government revenue and increasing expenditures. With the adoption of corrective measures in 1994 by several of these countries, fiscal imbalances narrowed sharply, but on an average fiscal deficits during 1986-94 remained significantly larger than in the first half of the 1980's (International Monetary Fund, 1995).

CONTINUING CONSTRAINTS

Lack of Accountability

While a number of countries in the region have undergone "political liberalization" of some sort and have moved towards democratization since the early 1990s, good governance, which is characterized by a sustained practice by the political and administrative leaders of accountability, transparency and adherence to the rule of law still remains a distant ideal in a number of countries, These characteristics have made it extremely difficult to bring about more responsible and responsive management of public financial resources in Sub-Saharan Africa.(5)

Although formal financial rules and regulations exist on paper in all countries on the preparation and approval of the budget by the legislature and prohibiting expenditures outside the budget, politicians and bureaucrats have very little incentive to adhere to the rules that they themselves formulated. In many countries, the annual budgets were not even presented in time as several of the financial problems remained unresolved. The incurring of expenditures far in excess of the approved limits is also a very common feature as public officials are not held accountable for their actions. The traditional controls exercised by the Treasury are generally ineffective due to lack of penalties for non-compliance (Namasasu and Kufa, 1996).

In such closed systems, budget allocations also generally reflect powers of bureaucrats and the political elite and financial decisions are often made with an eye to political visibility and to meet the informal demands of politically powerful groups (Dia, 1996). It is also common practice to observe line ministries using their budget to cover unprogrammed expenditures and thereby forcing the government to meet statutory and international commitments through supplementary appropriations.

Delays in publishing government financial accounts have also been chronic in a number of countries in the region. There is normally a delay of more than three to four years before the government publishes the annual accounts. The structures that exist in line ministries and departments to provide financial information do not often function and no corrective action is ever taken even for this elementary aspect of moving towards transparency and accountability. Consequently, the Auditor General's offices are not able to perform their essential audit functions and prepare their reports for review by the legislature.

Some of the other weaknesses in this regard include ineffective, deficient or non-existent internal financial control systems and an open disregard for rules and regulations. Past efforts to improve budgeting and financial management practices have not been very effective as a more open and rational budget process would have taken away much of the discretionary power from the ministry of finance officials for mid-year expenditures and tax reductions (McNamara, 1995).

There is considerable potential in Sub-Saharan Africa to improve financial management in the public sector through measures which will improve governance. Political liberalization in several countries in recent years has been a major step toward strengthening governance. The increased public debate and improved accountability and transparency in government financial transactions which are likely to result from political liberalization are also bound to enhance governance and help foster political consensus on the need for greater accountability.

Weakness of the Revenue Base

Perhaps a significant factor contributing to the continued fragility of fiscal balance is the weak efforts made by the governments in improving tax and non-tax revenues corresponding to increases in expenditure plans and commitments. The revenue base for most countries is very weak particularly where the tax structure is heavily weighted in favor of levying taxes on international trade. The share of such taxes in revenues continues to be high compared to other developing countries. Many low-income countries also rely heavily on export of primary commodities and consequently their revenue base varies widely from year to year due to fluctuations in terms of trade.

As far as non-tax revenues are concerned, SSA nations do not use the mechanism of user charges as frequently as other developing countries. The share on non-tax revenues in revenue is only 12 percent for SubSaharan Africa compared to 21 percent for the developing countries (World Bank, 1988). Considerable potential exists for enhancing revenues through user charges for infrastructure services such as electricity, water, roads and communications. Government deficits could be gradually reduced by raising user charges to levels closer to marginal costs. A study by the World Bank estimates the proceeds from such moderate increases in user charges in Sub-Saharan Africa at roughly 20 percent to 30 percent of central government revenues or 4 percent to 6 percent of the GDP (Shaw and Ainsworth, 1995).

Indeed greater reliance on user charges has to address other problems of equity and the impact on the weaker sections. With adequate safeguards, expanding the base for user charges could reduce the instability of revenues because the demand for such services is much less volatile than revenue from commodity exports. Many countries have already initiated policy reforms in this regard. For example in Kenya after decades of following a policy of providing free services in the curative health and higher education sectors, the government is now realizing substantial user charges in these sectors. It is also true that countries such as Kenya and Ghana that have legislated special user charges for road use, such as a levy on petroleum products have been able to mobilize substantial additional resources for road maintenance (Ramakrishnan and Wheeler, 1997).

A third factor contributing to the weak revenue performance is the lack of indexation of taxes to domestic prices so as to offset the loss of revenue due to collection lags, particularly in countries with high rates of domestic inflation. In addition to inflation, overvaluation of domestic currency also tends to shrink the tax base and leads to a reduction of revenues from traded goods. Apart from these factors, administrative constraints in the collection of revenues have also contributed to actual declines in public sector revenues over a period of time.6) Sustained efforts are required to improve the base for tax and non-tax revenues and to improve the administration and collection of revenues.

Lack of Expenditure Control

In general, governments in Sub-Saharan Africa have found it extremely difficult to control the rate of growth of public expenditures even under very restrictive fiscal conditions. While this may be true of many governments in the world, in the context of a general lack of accountability and transparency in financial management in Sub-Saharan Africa, this is a serious structural constraint in the budget systems. Experience has also shown that limited expenditure control has been the most important factor contributing to fiscal imbalance even in those countries in the region with positive rates of economic growth.

A distinguishing feature in Sub-Saharan Africa has been the tendency in several countries with heavy reliance on trade taxes to apply indiscriminately short-term increases in export revenues and foreign aid budget support for increasing public expenditures. In the seventies, the windfall gains in export revenues, often leveraged by additional borrowing in Cote d' Ivoire, Ghana, Kenya and Madagascar, led to large increases in current and capital expenditures with subsequent entitlement on future budgets. Similar trends are noticeable in the nineties in the use of local currency proceeds of quick disbursing program loans and grants as general budget support for increasing public expenditures.

Public expenditures have a universal and built-in tendency to increase rather than decrease. It is very difficult to cut back expenditures or control spending once a 'plateau' of higher expenditures is reached. Expansion in government payrolls and subsidies for public enterprises financed by short-term revenues and foreign inflows create future commitments and are extremely difficult to cut back once such increases are no longer available.

In many countries in the region, it will not be an exaggeration to say that only a minority of public officials are ever interested in expenditure control. Even for this minority, the ritualistic adherence of macro-level expenditure targets is more important than bringing about fundamental changes in the allocation of resources or control of expenditures. The ministry of finance officials in many countries often take the view that they are responsible only for the adherence to macro-level expenditure ceilings and leave the issue of prioritization to the line ministries.

The functioning of bureaucracies in Africa in matters of expenditure control is in fact in sharp contrast to the experience in other regions. For example, in India a system of multiple vetoes exists within the bureaucracy, which enables any expenditure proposal or financial commitment being reviewed or vetted by a number of public officials in a well-defined hierarchy who have the freedom to review the proposal objectively, examine its precedent-setting natures and record their comments and suggestions for the senior management to review. In Sub-Saharan Africa it is difficult to find such an organized system of expenditure review and control. Elements of a neutral civil service that used to exist at independence, have all been destroyed by the leaders' desire to have a "committed" civil service, committed to the regime. The feudal nature of many of the post-independence regimes also assisted in the process of destroying civil service neutrality, professionalism and objective review of expenditure proposals. Consequently, instead of the system of multiple vetoes in the system, what is noticed is a multiple set of points or sources of financial commitments.

The inability of most African Governments to be selective in initiating new projects and enforcing a review process within the government has contributed to large and over-extended project portfolios in many countries and considerable under-funding of on-going programs. Experiences with the annual preparation of a Public Investment Program illustrate a lack of seriousness in enforcing selection criteria for new projects. Consequently such programs have tended to be mere statistical compilations of existing and proposed project portfolios, rather than serving as internal mechanisms for weeding out undesirable projects.

Debt Situation

Africa's debt situation, despite several efforts to ease the payment burden, continues to be extremely critical and is perhaps the most important single factor constraining the more rapid growth of the economies in general, as well as the financing of the much needed investments in infrastructure and human resource development.

According to the World Bank (1996), Sub-Saharan Africa's total debt rose to US $223 billion by 1995, compared to US $173.7 billion in 1990 and US $154.7 billion in 1989. As a proportion to the GDP, Sub-Saharan Africa's total debt is indeed enormous. In 1995 it was 74.1 percent of its total GDP, compared to 30.6 percent in 1980. It is also true that the much greater extent of poverty in Sub-Saharan Africa and the more serious structural weakness of African economies have made Africa's debt burden extremely difficult compared to other highly indebted regions. Of the World Bank's list of 36 severely indebted low-income countries, 28 are in this region.

Debt service payments increased to 22.5 percent of the exports in 1995, up from 19.1 percent in 1990. Debt service arrears have increased from $US 1.4 billion in 1980 to $US 62.2 billion in 1995. Given the magnitude of this burden and the limited fresh inflows into the region compared to the requirements, it is extremely difficult for the central government in most countries in Sub-Saharan Africa, to achieve fiscal balance unless fundamental reforms are implemented effectively in the management of public expenditures. Apart from severely constraining the ability of the countries to maintain appropriate levels of imports for sustaining the growth processes, a more direct impact of the debt burden is the increasing share of interest payments in government expenditures.

In most countries in the region, the share of public expenditures on interest payments has nearly doubled in the last decade, crowding out other expenditures, particularly investments in infrastructure and human resource development. Movements in the exchange rate and domestic interest rate structure, both of which are essential components of economic reform being undertaken by a number of countries in the region, have in fact further increased the share of interest payments in the total expenditures with the resultant crowding out of expenditures in primary education and health services.(7)

With limited debt relief and severe constraints on other forms of likely inflows, it has to be recognized at all levels that foreign resources can not substitute domestic resource mobilization and raising of domestic savings for development. While it is true that the various types of relief measures implemented so far have provided some relief, it is equally important to recognize that tying of debt relief and flow of resources to economic adjustment programs, has several implications for financial management. This kind of linking introduces a short-term approach to macro-level management and will not be sustained in the absence of real adjustments in expenditures and substantial improvements in their allocation with a view to focus them on human resource development and physical infrastructure. Expenditure control procedures within the government must first be strengthened to eliminate unproductive expenditures and increase efficiency.

ISSUES FOR ATTENTION AND DIRECTIONS FOR CHANGE

Revamping the Budget Process - Need for a Transformation

Reducing public expenditures and fiscal deficits have now become a common and well-accepted policy direction in public budgeting systems throughout the world. Consequently the approach to public budgeting has changed from one which emphasized financial control to that of developing long range fiscal norms in an open planning process that is distinct from the bottom-up formulation and review of budget estimates. The new approach is to commit the entire government apparatus to budgetary stringency by imposing strong restraints on all the actors involved. The type of control varies depending on national practices, from limiting the total public spending, to imposing cash limits on expenditures and legal limits on budget deficits and public borrowing(8)

Whereas the policy issues in operating such constrained budget systems are relatively simple and easy to identify - the more difficult areas for change in Sub-Saharan Africa are institutional and process related. Although controlling the overall fiscal deficits and limiting government expenditures do occupy a prominent place in economic reforms in many countries in the region, an undue emphasis on macrolevel annual "performance targets" seems to have resulted in a uniform compression of expenditures across the board, leading to a serious misallocation of scarce resources.

Many years of crisis budgeting in the region seem to have eroded the credibility of the budget process in a number of countries making it more difficult to achieve a better allocation of resources. It will not be an exaggeration to say that in a number of countries the national budget is no longer seen as the major vehicle for planning total expenditures and for their allocation amongst various sectors. Revenue declines and liquidity problems combined with an ever-expanding volume of commitments and pending payments have resulted in a cash budgeting system in which the release of cash has no relation to what was budgeted for that year.(9) Consequently the large number of agencies involved in budgeting and spending of public resources no longer view the budget process as the only means for doing so, but have developed their own adaptive strategies to get what they want.

Mid-year expenditure authorizations or "supplementary estimates", in theory meant to provide flexibility to handle unforeseen events, are now the order of the day even in countries like Ghana, Uganda and Kenya in order to implement programs for deficit reduction and expenditure control. Often "supplementaries" are as high as 10 percent to 15 percent of the annual budget with expenditure authorizations of a substantial magnitude even for generally predictable expenditures such as salary increases and for the initiation of new activities.(lo) Such additional expenditures are easily rationalized on the grounds of having to accommodate mid-year policy changes and there is no pressure within the system to postpone implementation of policies having substantial financial implications until the next budget.(11) These problems could be traced to the bureaucratic adaptation of fiscal adjustment programs in the ministry of finance leading to a ritualistic adherence to annual or quarterly performance targets on total expenditures and domestic borrowing.

There are indeed wide variations in the practices, institutional traditions and capacity across the nations. Reform efforts for improving the budget processes should however recognize two fundamental institutional features - on the one hand finance ministry officials easily adopt macro-level targets on expenditures, speak the same language as the IMF and the World Bank and often declare that they "will hold the line come what may" leaving the onus of cutting and prioritizing to the sector ministry officials. The sector ministry officials, on the other hand, are typical "budget maximizing bureaucrats" and invariably seek strategies to overcome, what they perceive to be short-term constraints which should not in any case apply to their ministry.

Improvements in public expenditure management need a budget process which is transparent and which can facilitate a satisfactory resolution or at least a reconciliation of the conflicting interests of these two groups, each of whom perceive their functions differently. This will first require a considerable rehabilitation of the existing budget processes, to render them more predictable, transparent and the only means for allocating public expenditures. Such a rehabilitation is also required to re-establish the traditional objectives of accountability, expenditure control and efficiency.

In addition, the budget processes in many countries in the region also require two fundamental changes: (a) an enhancement of the effectiveness of the macroeconomic framework as a guiding principle in the allocation and utilization of resources, and (b) a reorientation towards a medium-term expenditure planning framework in order to accommodate the more stringent post-reform fiscal conditions and to improve the allocative aspects over a period of time. These changes could assist in establishing a policy-oriented budget process, dampen the pressures for expenditure growths, strengthen the capacity for restraint and enhance the productivity and efficiency of public expenditures. The more specific directions for such rehabilitation and reorientation has to be countryspecific; however, the following sections briefly outline some of the broad directions for change.

Enhancing the Effectiveness of the Macro-level Framework for Budgeting

The critical issue in public financial management in most countries in Sub-Saharan Africa is the need to reduce the rate of growth of public expenditures and improve their allocation with a view to focus them sharply on human and physical infrastructure development."'2 The emphasis on productivity and efficiency of public expenditures requires a process which is vastly different from the earlier unconstrained bottomup budgetary systems where totals were decided at the end, often by cutting at the margin. Three major changes in the budget processes that could assist in this change are:

- establishing strong linkages within the budget process between the macroeconomic conditions and public expenditure planning;

- establishing institutional capacity within the government to disaggregate macro-level fiscal objectives into specific targets and guidelines and to review projects and programs in the light of these norms; and

- securing system-wide acceptance of these targets and guidelines.

The setting of a macroeconomic framework for budgeting is an important element in process reform as it enables the establishment of appropriate fiscal norms ahead of the actual compilation of the budget by the sector ministries. These are developed, subject to country-specific variations, within a medium term framework covering two or three years on an analysis of the underlying economic aggregates such as the projected rate of growth of the economy, anticipated inflation trends, balance of payments projections, sectoral growth rates and projections of tax and non-tax revenues and anticipated aid flows. On the expenditure side similar aggregates could be developed for real expenditures on debt redemption and interest payments, salaries and other committed expenditures. Based on the overall fiscal situation and policy orientation of the government, appropriate levels of target budget deficit are established which can then set a limit on total expenditures and domestic and foreign borrowing.

The determination of total expenditure ceilings is an important pre-budget activity; there are bound to be problems of availability of information and technical skills to review the macroeconomic aggregates and to prepare norms for public expenditures. In many countries in the region which are currently implementing economic adjustment programs, such a macro-level planning of public expenditures is in fact being done on behalf of the governments by the International Monetary Fund and the World Bank. These efforts have been extremely useful to the ministry of finance officials and have assisted them in controlling expenditures. But the problem in such approaches has been the lack of system-wide support, understanding and willingness to implement.

A beginning must be made to institutionalize these processes within governments, so that the exercise can gain credibility with the spending agencies and could be improved over a period of time through experience. The proposed expenditure levels could also be further elaborated to reflect policy directions and the required incremental improvements in allocation. For example, expenditure ceilings might be set for ministry recurrent expenditures along with ceilings for salaries, for projects and programs financed by government resources and those to be financed through foreign project grants and loans.(13)

Overall fiscal norms can be effective as a guiding force for the budget process if and only if these are determined after considerable deliberation and open consultation with the line ministries. In the absence of such an open and consultative process, the norm-setting exercise could turn out to be a top-down technical exercise, the legitimacy of which will often be questioned.(14> It is the general experience that the very nature of this centralized rationing process with emphasis on totals and not on programs, leads to easy adaptation by finance ministry officials who tend to emphasize different deficit and expenditure levels but not on activities to be retrenched or programs to be reviewed. Hence it is important that governments in Sub-Saharan Africa take the initiative to organize this pre-budget activity in a participative and open manner. Again, this just the beginning of a series of other activities to revamp the budget process.

The establishment of a macroeconomic framework for budget exercises, as a distinct pre-budget activity carried out in a consultative manner, can also provide an opportunity within the government to review some of the major policy issues and structural problems in the budget and financial management practices. Such reviews can identify gradual policy adjustments towards easing these constraints. The approach should be to establish the general directions for change in allocations, mobilize system-wide support and agreement for such changes, and to improve the quality of allocation of resources over a period of time, instead of following a stereotyped and a repetitive budget process. While the specifics of the problems will vary from country to country, some common examples of the structural problems in the budget that need review and appropriate policy response are:

- a growing imbalance between wage and non-wage operating expenditures - partly as a result of unconstrained growth of employment in government and partly due to successive cuts in allocations to operating expenses; in a number of developing countries, this has led to very serious constraints in utilizing existing infrastructure and physical capacity and in the effective delivery of government services;?ls)

- an unusually large number of investment and other development projects in the portfolio, the implementation of which has been considerably delayed due to years of financial squeeze and implementation capacity;

- large volume of transfers and subsidies to public enterprises;

- a huge volume of pending bills and other arrears to the private sector, again as a result of ineffective management of public expenditures over a period of years (Diamond and Schiller, 1988); and

large scale and continuous financing of budget deficits through domestic borrowing, crowding out the private sector from available domestic resources, and increasing volume of domestic interest payments crowding out other public expenditures."6)

In most budget systems in Sub-Saharan Africa, these and other similar policy issues are never put on the agenda for an open discussion and review at any point of time. Thus, some of the basic causes of fiscal disequilibrium are never tackled and efforts made to improve the efficiency of resource use. An opportunity must be built into the budget process to review policy issues influencing public expenditures and to promote open discussions and solutions to address them.

Developing Widely Accepted Norms for Allocation of Resources

The desegregation of macro-level fiscal norms into specific sectoral allocations and the development of guidelines for the review of projects, programs and other spending activities, is another important aspect of the budget process, so that by the time the sector ministries are preparing their annual expenditure requests, ceilings and guidelines are already in place and they are constrained as to the amounts that can be requested.

Although economists and planners are likely to consider such sectoral allocations on highly abstract criteria, in practice a major part of public financial resources are already committed to on-going services, activities and the portfolio of projects in each of the sectors.?)7 What is more important in this phase of activity is to promote an awareness in the system that increments in revenues, such as may be projected, have a very high opportunity cost and have to be carefully allocated to high priority sectors and activities which have significant linkages for renewing the growth process and for human infrastructure development.

Ministry-wise financial ceilings can be supplemented by specific guidelines for prioritizing the activities, programs and projects within each sector as the basis for preparation of expenditure requests. An example is given by Kenya's Budget Rationalization Program (Ministry of Finance and Planning, Government of Kenya, 1986) which provides three distinct sets of guidelines for enabling the ministries to prioritize their funding requests within the expenditure ceilings. The first set consists of general financial criteria, such as the need to complete ongoing projects, the need to reduce the number of projects so that those that are included in the budget can be fully funded and implemented in time and the need to increase the utilization of existing capacity. The second set, also cutting across all the sectors, provides general economic criteria such as the need to increase production and productivity in the economy, create employment opportunities, assist small farmers and pastoralists to increase their economic productivity and to promote exports. The third set of criteria are sector specific which are required to be developed within the line ministries.

The development of guidelines for prioritizing expenditures is also an iterative process which needs to be continually revised in the light of experience. A major problem which many countries may face is the capacity within line ministries to develop guidelines for establishing expenditure priorities. Although the ministry of planning (or its equivalent) can help in this regard, often planners are trained and spend most of their time in designing and evaluating new projects rather than on reviewing an existing portfolio and developing criteria for the rationing of funds. The emphasis on rationing implies that the current benefits being generated from a given portfolio of projects and programs in a given sector has to be reviewed carefully. This will require considerable reorientation of the approach to planning, particularly to identify less important activities, so that funds could be released for the high priority activities.

Budget Processes in Line Ministries

In a number of countries in the region it is becoming increasingly clear that while the core ministries such as finance and planning are relatively better equipped to plan and implement strong fiscal adjustment measures, the same is not the case with the line ministries. Often the messages for fiscal restraint and for improving the allocation of expenditures remains on paper and the spending ministries develop their own adaptive strategies to get the resources they want. Organizational and process constraints within sector ministries often make it very difficult to ensure consistency with the macro-level framework for public expenditures and to improve the allocation and management of resources within the sector. Political influences on allocation of resources are also somewhat stronger at the sector ministry level, often creating additional constraints for dealing with some of the basic intra-sectoral issues of prioritization.

A major issue that will require a satisfactory resolution at the sector ministry level in a number of developing countries is the need to rationalize the portfolio of projects. The portfolio of on-going development projects and the new ones being generated year after year is too large in a number of countries in the region, considering the fiscal constraints, administrative capacity to implement them and the requirement of funds at a future date for their operations and maintenance. Apart from the sheer magnitude, the quality of investments is also poor, reflecting a very inefficient use of scarce resources.

For example, the overall performance of investments in Sub-Saharan Africa, with a few exceptions, has been extremely poor.(' Many of the externally financed projects were extremely costly in terms of financing, design and capital intensity and often the linkages assumed between project outcomes and economic productivity did not materialize. While part of this poor impact of such investments on the generation of revenues for repayment of the loans borrowed could be attributed to the poor macroeconomic environment, a major reason is that many of the investments did not reflect priorities either for the economy as a whole or within a given a sector ([sham and Kaufmann, 1995).

The fiscal constraint and the need for keeping a limit on expenditures has also resulted in stretching such investments over a long period of time, leading to delays in implementation, cost escalation and postponement of the likely benefits to the economy. In general there are very little incentives within the sector ministry bureaucracies for limiting the generation of new projects. As a result, the available resources for development expenditures have been spread too thinly across a large number of under-funded projects with the extent of under-funding increasing every year as new projects are introduced in the budget. This is particularly true of projects financed by government resources, which have a tendency of creeping into the budgets with very little allocation of funds in relation to their total costs. In many budget systems in Sub-Saharan Africa, it will be worthwhile to slow down the process of generation of new projects and allocate resources for the completion of on-going ones and for the much-needed rehabilitation of incomplete projects. This will require within the sector ministries, the development of widespread consensus and an agreed-upon agenda for reform. The critical institutional factor for the success of these efforts is again an internal generation of an agenda for reform through the direct involvement of the participants, particularly technical officials in the sector ministries in the agenda-setting process, in appreciating resource constraints and in determining priorities within the sector.?l9)

Planning and Budgeting Linkages

By the very nature of the analytical work involved and the volume of review of actual performance necessary, pre-budget activities such as those discussed above cannot perhaps be achieved within the context of the annual budget cycle. Thus budgetary procedures need to be reviewed so that a medium-term framework is established and budgeting and planning functions are better linked.

In all examples of successful integration of the planning and the budgeting functions in developing countries, there are several common features noticed - namely the availability of highly qualified manpower for the planning and budgeting agencies, political support for the process of project selection being followed, and open and transparent decision-making system, which can be publicly questioned or criticized.(

At the other end of the spectrum could be seen efforts in a number of countries in Sub-Saharan Africa to prepare elaborate medium-term development plans, often with no underlying macroeconomic assumptions and not directly addressing the need for establishing priorities amongst the different sectors competing for scarce resources. Often these development plans turn out to be wish lists of sector specialists and are rarely if ever, translated into budgetary realities through linkages with annual budgets.

Attempts have been made in a number of countries in Sub-Saharan Africa for establishing better linkages between planning and budgeting functions through the preparation of multi-year expenditure planning exercises and public investment programs to guide and feed into the annual budget cycle.(") Where such exercises are carried out within the context of a clearly established macroeconomic framework and are able to assist in the process of establishing priorities for allocation of resources, such attempts have generally resulted in some improvements over the earlier unconstrained and/or repetitive budget processes. A multi-year expenditure planning framework of preparing rolling expenditure plans leading into the annual budget could provide a valuable means for an extended pre-budget review leading to the determination of expenditure levels for the annual budgets as well as the means by which system-wide acceptance of fiscal norms and guidelines is generated.

However in the context of the reorientation required in the budget processes, the emphasis in such multi-year planning exercises should be more on management and financial control aspects of public expenditures and not merely on "planning" in the traditional sense of the term. This requires several changes in the approach to the multi-year planning.

First, the exercise should be the main vehicle for an extended review of all the activities, including those funded in the recurrent budget, projects and programs, from the point of view of the current benefits being generated and the constraints observed in the sector. Such a program review should lead to the development and further refinement of guidelines and detailed criteria for the allocation of financial resources within the sector.

Second, where the problem of an overextended portfolio of development projects is acute, multi-year planning exercises should be used to review the implementation of projects in the sector, with a view to establish priorities within the group of on-going projects for budget allocation. Monitoring of expenditures and scheduling of implementation should become an essential activity during the exercises, so that projects get completed in time and the annual budgets reflect the scheduled financial requirements for implementation.

Third, the exercise should also be used to review the extent of underutilization of capacity within the sector and to assess the recurrent funding requirements both for the existing capacity and for on-going development projects. Also, the question of establishing priorities within a sector for the allocation of non-wage operating expenses should be explicitly considered in the exercise.

Fourth, there could be other policy issues which are sector-specific such as, for example, the relative priorities in allocation of resources amongst primary, secondary and university education or amongst curative and preventive health, employment and training policies and the levy of user charges in specific sectors. A multi-year planning exercise can be used as a mechanism to bring such issues on the agenda, so that a beginning is made towards resolving them over a period of time.

Finally, the exercises could also be used as the only authorized means for the generation of new projects, their review and acceptance in principle for funding. This principle needs to be accepted in a political sense and widely understood by all participants in the budget process, including the parliament and the general public. Such an openly established institutional control on the generation of new projects is an important function which cannot be resolved during the annual budget exercises. In order that the multi-year expenditure plan becomes an important link in the budget process, it is essential that the final document is published and the allocations in the annual budget are based strictly and entirely on the allocations and projects finally approved for the year in multi-year plan. It is also important that no new projects or activities or policy changes having substantial financial implications are considered at the time of preparing the annual budget. It is only through such systemic linkages that the rolling plan can become a useful and extended pre-budget activity.

In these respects, multi-year planning is different from traditional planning exercises or the preparation of public investment programs. Instead of emphasizing new investment projects, the emphasis is on the review of policies and programs in each sector and the development and annual refinement of criteria for the allocation of financial resources for the sector. Over a period of time this exercise, if carefully carried out, can create some consensus among the participants in the budgeting processes and generate internal pressures for reform. This could be more productive and sustained rather than continuing to use the traditional bottom-up budget processes and making a short-term attempt to achieve macro-level fiscal targets.

Management of Foreign Aid

In many countries in Sub-Saharan Africa, concessionaire loans and grants from donors finance about 70 percent of the investment budget. In the context of improving the budget processes and institutional capacity for financial management on the public sector, a resolution of some of problems in the management of external aid is important. Experiences of countries in the region in the management of external assistance vary widely depending on institutional development and stability of the planning and budgeting systems. Some of the common constraints observed are:

- a general lack of coordination of external assistance within the government;

- inordinate delays in project implementation;

- complex accounting and disbursement procedures, and

- problems in the use of non-project or program assistance.

In a number of countries in the region, donor agencies and line ministry officials are constantly engaged in the process of initiating new projects and programs, often with very little relevance to the macroeconomic or the fiscal situation in the country. The project proposals reach the core ministries such as planning and finance, for signature of the bulky project documents and financing agreements, only after considerable technical work has been done and funds have already been spent on very costly feasibility studies. At this stage, core ministry officials have very little freedom to question the relevance of the project or its design features in the overall context. Consequently, a large number of projects representing a less than optimal use of scarce resources enter the stream and float across to the next stage in the budget cycle and finally are included in the annual budget for implementation.

While there is no standard model for improving coordination, experiences of countries such as India and Indonesia are suggestive of the type of institutional arrangements that may assist in coordinating donor assistance within the overall framework of public expenditure management. In India, such a coordinative role is effectively performed by the central ministry of finance, with most projects for external assistance being developed by the government agencies and vetted by the planning agency. In Indonesia, the planning ministry coordinates the total size of the aid program and major policy decisions relevant to it and this is supplemented by annual meetings with donor agencies to review the project portfolio in different sectors.

The enthusiasm normally displayed by the bureaucracies within donor agencies as well as line ministries for generation of new projects is rarely repeated when it comes to implementation. This phase of donor assistance is often the most neglected one, resulting in inordinate delays in implementation, cost escalation and once again representing an inefficient use of scarce resources. The actual utilization of project assistance is extremely low in many countries in the region, in relation to the annual disbursement plans of donor agencies.

There are several reasons for low utilization of project aid, not the least important of which seems to be the over-design of projects and a lack of appreciation of the administrative capacity of implementing sector ministries. Often donor assisted projects are "islands of prosperity" in an otherwise arid landscape, characterized by a severe lack of basic resources needed for the delivery of the normal government services.

Other important reasons include the lack of counterpart funding for the government financial share of the projects as well as the excessive number of projects in the portfolio discussed earlier, which result in spreading the available manpower too thinly across a number of projects. Again the bureaucratic and political rewards in the systems go to those who initiate new projects and not to those who complete them in time and in a cost-effective manner.

In many cases, implementation problems can also be traced to a lack of congruence between the priorities for a sector as perceived by the donor agencies and those of the politicians and bureaucrats in the recipient countries. In countries where there is no consistent macroeconomic framework influencing the budget process or a national planning process, this lack of congruence has often been a major factor contributing to a lack of interest or "ownership" shown by recipient governments for such externally assisted projects. Donor agencies on their part often take a very short-term approach to get around the bureaucracies of developing countries, often by insisting on expatriates to be positioned in sector ministries for implementing their projects. This practice leads to the non-sustainability of such project activities once the donor withdraws from the project and a lack of proper operations and maintenance of completed projects.2)

Again, as a consequence of a lack of harmonization between the procedures of donor agencies for disbursement and accounting and governments` own procedures, there is considerable confusion and delay in a number of countries in the region in accounting for such aid-financed projects. Although several attempts have been made to improve consistency and to identify the basic elements in a harmonizing framework (United Nations, 1996) , in actual practice there are as many procedures for disbursement and accounting as there are donors financing projects. In an attempt to overcome these problems, it is not uncommon to notice donor agencies developing specialized project implementation units to ensure that their projects are implemented smoothly and accounts are prepared in time. While this may be a good short-term approach, the practice described as a kind of "functional dyarchy" does not help in building institutional capacity within governments to implement such projects.() This is an issue which will require very close attention by the donor agencies and the recipient governments.

Finally, in recent years there has been an increase in non-project foreign assistance to a number of countries in Sub-Saharan Africa, mainly as a result of the need for quick disbursing means of donor support, especially to countries with acute financing and balance of payments problems. Although this form of assistance has considerably enhanced flexibility, it requires an entirely new set of tasks to be performed effectively by developing country institutions. A number of multilateral and bilateral donor agencies use the opportunity of giving non-project aid to insist on major policy reforms and changes in administrative practices, often with very little relevance to the capacity of the institutions in developing countries to implement such reforms (Cohen, Grindle and Walker, 1995).

The increasing scale of conditionalities attached to non-project assistance and the combined efforts of a number of donor agencies to insist on a core set of conditionalities has in fact introduced a new dimension for institutional capacity in the core ministries in the region. These activities require considerable attention and the time of high level manpower in core ministries as well as extensive and open discussions within the government, if they are to be effectively implemented. Here again, as in the case of allocation of public resources, discussions on conditionalities need to be discussed openly with the full involvement of sector ministry officials.

Conditionalities agreed to secretly behind closed doors between donor representatives and finance ministry officials have very little possibilities of implementation or even system-wide acceptance. Unfortunately this aspect is never recognized either by the donor agencies or the finance ministry officials negotiating non-project assistance, leading to the well-known credibility gap between intentions and performance and the introduction of more "difficult" conditionalities at successive phases of non-project assistance.

The above constraints in the effective use of external assistance needs to be taken into account in designing appropriate institutional mechanisms and process changes in budgeting systems. Whereas an ideal situation will be for the governments in the region to propose projects and programs for donor assistance within an overall macroeconomic framework and in the context of clearly established priorities for public expenditures, such a situation remains a distant target, as it requires considerable strengthening of the core ministries and the deployment of highly qualified manpower to these tasks in many developing countries.

Meanwhile, governments in the region would do well to assess the institutional mechanisms in place and their effectiveness for negotiating external aid, and for ensuring that such assistance is directed towards sectors and projects identified as high priority projects by the governments.(24)

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1. See Dhaneshwa, Ghura and Uwujaren (1992) for a brief analysis of the different interpretations of the causes of economic decline in SSA. See also Easterly and Levine (1996) for an explanation of how ethnic divisions in society are associated with low schooling, political instability, underdeveloped financial systems, distorted foreign exchange markets, high government deficits, inefficient infrastructure and poor institutions all of which in turn have contributed to poor economic growth.

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2. The "strong adjusters" are Benin, Burundi, The Gambia, Ghana, Kenya, Lesotho, Malawi, Mali, Mozambique, Niger, Senegal, Tanzania, Togo and Uganda. In addition the "strong adjusters" group includes 5 countries characterized during this period by relatively low internal and external imbalances (Botswana, Mauritius, Seychelles, Swaziland and Zimbabwe). The number of SSA countries implementing broadly appropriate policies has risen markedly since the late 1980s, reaching about two-thirds of the total by 1994 (International Monetary Fund, 1997: 29). 3. By the end of 1993, interest rates had been liberalized in 27 countries (World Bank, 1995b: 55).

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4. In Ghana where a relatively successful structural adjustment program was implemented, fiscal reforms turned out to be the most difficult one to achieve (Armstrong, 1996: 97). 5. See Ed Campos and Sanjay Pradhan (1996) for a comparative analysis of the likely impact of budgetary institutions on expenditure outcomes, especially in Uganda, Malawi and Ghana. 6. A 1992 study for the Ministry of Finance and Economic Affairs in Gambia prepared by HIID found evidence of substantial and widespread evasion of income taxes, with losses to government in the range of 70 percent of the revenue (Dia, 1993). 7. See Oxfam International (1996) for a graphic description of the effects of debt burden on social expenditures. For example, between 1990 and 1993, the government of Zambia spent around $37 million

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on primary education and over the same period repayment of debt amounted to $1.3 billion. 8. Alberto Alesina and Robert Perotti (1996) review the impact of balanced budget laws on budget outcomes in a sample of OECD countries, Latin American countries and US States. See also James M. Poterba (1996) for a review of the US Federal government experience with legislative measures for deficit reduction.

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9. Shellomith Boboti, Jackson Mbalo and Jane Kiringai (1996) describe how the cash budgeting system in Kenya was not able to control the commitment of government funds by line ministries and led to an increase in the accumulation of pending bills. See also Bruce Bolnick (1996) for some of the interesting side effects of the system in Zambia leading to priority reversals in the management of expenditures. 10. See Damoni Kitabire (1996: 7) for a description of how large scale supplementary expenditures reduced the effectiveness of the budget as an efficient mechanism for resource allocation in Uganda. See also Cletus K. Dordunoo (1995) for the practice by line ministries in Ghana to incur un-programmed expenditures forcing the government to meet statutory and international obligations through supplementary appropriations.

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11. See Ed Campos and Sanjay Pradhan (1996: 29) for a description of how an 80 percent salary increase in 1992 triggered a considerable weakening of fiscal discipline in Ghana. 12. See Jeffrey Sachs (1996) for a suggested fiscal agenda for Africa that can promote more rapid growth of the economies. 13. For an example of an elaborate system of expenditure ceilings, Ministry of Finance, Government of Kenya (1996). 14. The current practice in a number of countries in the region is to follow a macroeconomic framework prepared by the International Monetary Fund and the "Policy Framework Paper" prepared jointly with the International Monetary Fund and the World Bank. A number of countries have problems of "selling the program" within

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the government and internal resistance has often delayed an effective implementation of such programs. 15. See Clive Gray and Andre' Martens (1984: 105) and Heller and Aghveli (1985) for good treatments of the problem. 16. For a discussion of the structural problems facing a number of African governments, in financing their generally large budget deficits (Roe and Griggs, 1990).

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17. See Ed Campos and Sanjay Pradhan (1996: 30) for examples of such a prioritization of expenditures in Uganda and Ghana. 18. See World Bank (1991: 82-87) for evidence on the productivity of investment projects. 19. See World Bank (1988: 129), for example, for an attempt at budget process reform in a sector ministry level. 20. Hierarchical and transparent procedures were found to be associated with more fiscal discipline in Latin America in the eighties and early nineties (Alesina, Huasman, Hommes and Stein, 1996).

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21. See John M. Cohen and John Wheeler (1994) for a review of the problems encountered in this regard in Kenya. See also Sydney Chikoti and Andrew Chawo-Banda (1996) for donor domination of Public Investment Program in Malawi. 22. Incentives in Ghana's public sector were significantly distorted by donor-financed salary supplements and the manner in which donor project "benefits" such as vehicles, study tours abroad and training were allocated (Armstrong, 1996: 103). 23. See Premchand (1996) for the effects such separate systems for donor projects on expenditure management. 24. See Jeffrey Sachs (1997) for recommendations for enhancing the effectiveness of foreign aid to Sub-Saharan Africa. For a listing of some of the issues identified in this regard by public officials from Sub-Saharan Africa (Harvard Institute for International Development, 1997).

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